SGI

Saskatchewan Auto Fund 2003 annual report

SGI Vision:

As a Saskatchewan-based insurance company we will set the industry standard for being highly valued by our customers.

SGI Values:

Integrity: Conducting ourselves with honesty, trust and fairness

Caring: Acting with empathy, courtesy and respect

Innovation: Implementing creative solutions to achieve our vision

Table of Contents

Board of Directors and Senior Management	2
Letter of Transmittal	3
President's Message	4
Financial Results	5
Rates	6
Rising Claim Costs	7
Saskatchewan Road Safety	8
A Part of the Community	9
2004 Outlook	13
Balanced Scorecard	14
Management Discussion and Analysis	15
Corporate Governance	22
Responsibility for Financial Statements	26
Actuary's Report	27
Auditors' Report	28
Statement of Financial Position	29
Statement of Operations and Rate Stabilization Reserve	30
Statement of Cash Flows	31
Notes to the Financial Statements	32

Board of Directors

back row: Larry Fogg, Nancy E. Hopkins, Joan F.D. Baldwin, Dale Bloom, Kendra Chesney, Joan R. Bellegarde

front row: Jim Mills, W.J.A. (Bill) Heidt, Robert Fenwick, J. Walter Bardua

SGI appreciates the contributions of Don Cody and Delores Burkhart who left the Board on March 28, 2003 and October 22, 2003, respectively. On April 1, 2003, Nancy E. Hopkins was appointed Chair of the Board and J. Walter Bardua was appointed Vice Chair on December 19, 2003.

Senior Management

Vice Presidents

Margaret Anderson, Systems
Cheryl Barber, Human Resources
Earl Cameron, Claims
Alan Cockman, Auto Fund
John Dobie, Finance
Randy Heise, Underwriting

Assistant Vice Presidents

Doug Campbell, Claims
Anna Lapierre, Auto Fund
Bob Lundy, Claims
Maureen MacCuish, Communications
Bernadette McIntyre, Auto Fund
Arun Patel, Salvage
Don Phillips, Claims
Jim Roberts, Underwriting
Don Thompson, Finance
Dwain Wells, Systems
Lorne Whippler, Underwriting
Sherry Wolf, Claims

Letter of Transmittal

Regina, Saskatchewan
March, 2004

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 2003, including the financial statements in the form required by the Treasury Board and in accordance with the *Automobile Accident Insurance Act*.

I have the Honour to be, Madam,
Your obedient Servant,

Maynard Sonntag

Honourable Maynard Sonntag
Minister Responsible for Saskatchewan Government Insurance

President's Message

In 2003, SGI continued to provide the people of Saskatchewan with quality products and services at among the lowest rates in the country.

Though auto insurance premiums have skyrocketed in most other provinces, SGI has not had a general rate increase since 2000. This was an especially notable accomplishment in 2003 as it was the first full year of such customer service initiatives as Safe Driver Recognition – where safe drivers pay even less for their auto insurance.

SGI's long history of responsible fiscal management is demonstrated by the fact that SGI has some of the lowest administration costs in the country. In 2003, administration costs were even lower than in 2002.

SGI also served Saskatchewan people by continuing to invest in the community, promote road safety and maintain a strong stance against drinking and driving. As a caring corporate citizen, SGI is committed to improving quality of life for the people of Saskatchewan by funding worthy initiatives that also address insurance issues.

Looking forward, SGI will continue to provide quality service, low administration costs and low rates. The maximum discount under Safe Driver Recognition was increased to nine per cent on Jan. 1, 2004. SGI also launched the Business Recognition program in early 2004 – a program in the spirit of Safe Driver Recognition, but designed for commercial vehicle owners.

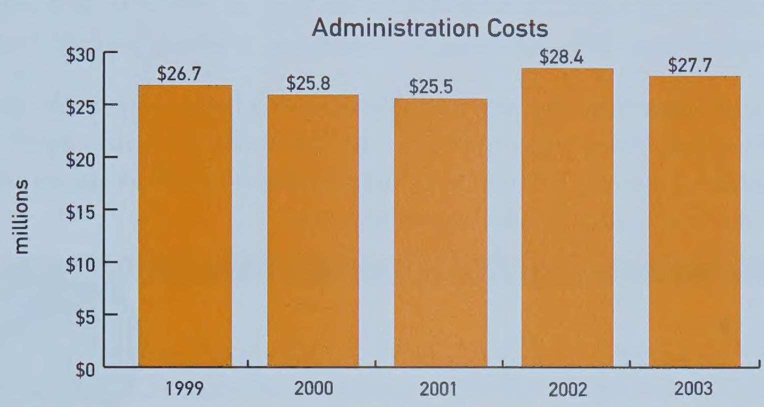
It's important to keep in mind that while SGI strives to keep rates low, that commitment must be balanced with rising claim costs. SGI's commitment to responsible fiscal management will ensure that while rates continue to be among the lowest in the country, they are adequate to cover the cost of claims.

Larry Fogg
President & CEO

Financial Results

The Auto Fund had a surplus of $11.5 million in 2003, which will be added to the Rate Stabilization Reserve. There is a positive balance in the Rate Stabilization Reserve, which supports SGI's low rates.

Also supporting low rates is SGI's commitment to efficient operations. The Auto Fund continued its tradition of low administration costs, with costs decreasing in 2003.

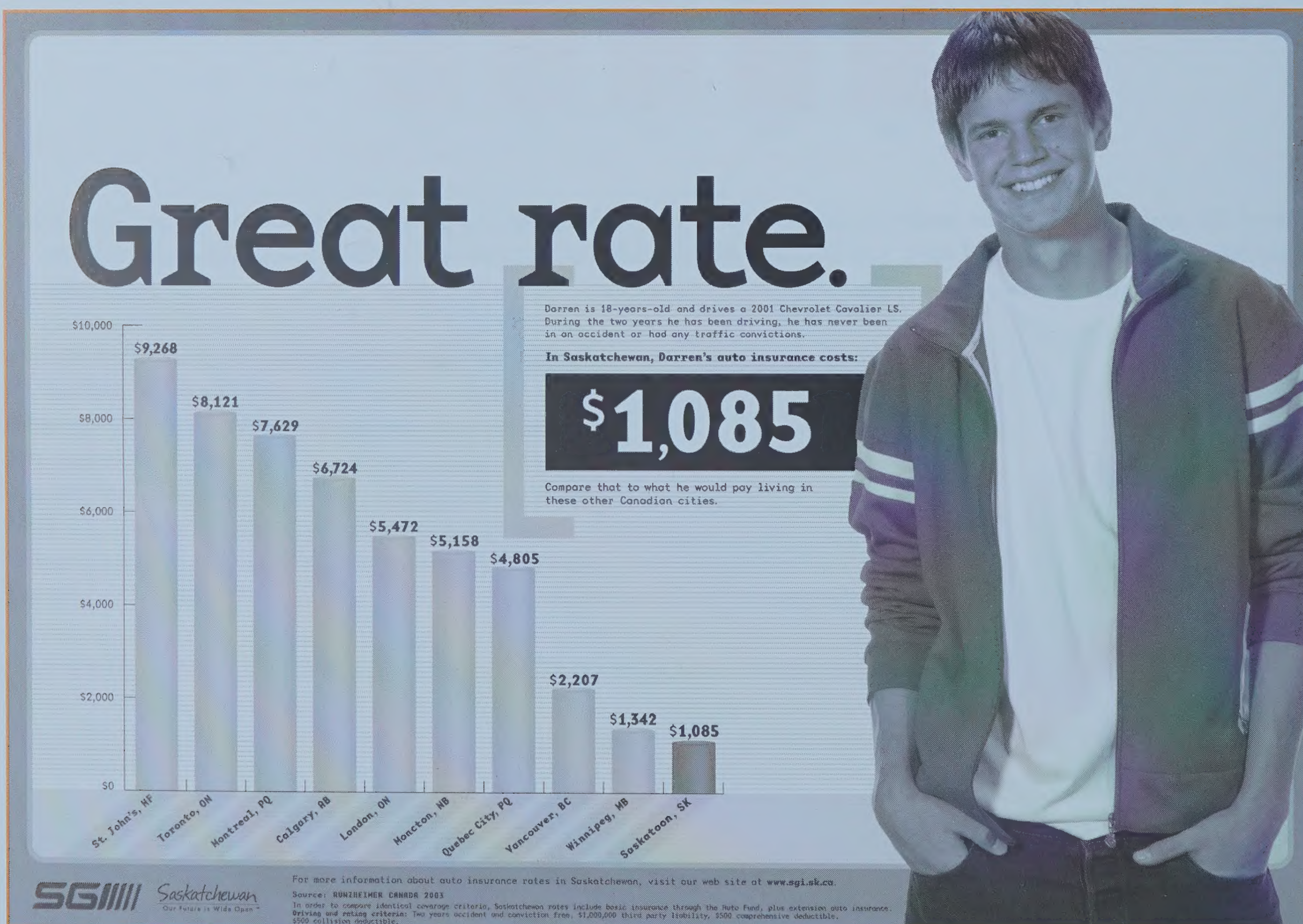


One of the problems facing the entire insurance industry in recent years is declining investment income. The market cycle has started on an upward turn, and SGI saw improved investment income results in 2003. However, results are still lower than the five-year average.

Motorists in other provinces may be facing double digit rate increases in premiums, but that's not the case in Saskatchewan.

According to Statistics Canada, the average increase in auto insurance premiums for Canadians in 2003 was 22.1 per cent. SGI, on the other hand, has not had a general rate increase since 2000. Saskatchewan motorists continue to benefit from among the lowest auto insurance rates in Canada - and under the Safe Driver Recognition program, most Saskatchewan motorists pay even less. In 2003, three out of four Saskatchewan vehicle owners received some level of discount on their auto insurance. Since the launch of Safe Driver Recognition in July 2002 to the end of 2003, $32 million has been returned to motorists in the form of discounts. It is expected another $25 million will be returned to motorists in 2004 following the maximum discount increase to 9% on Jan. 1st.

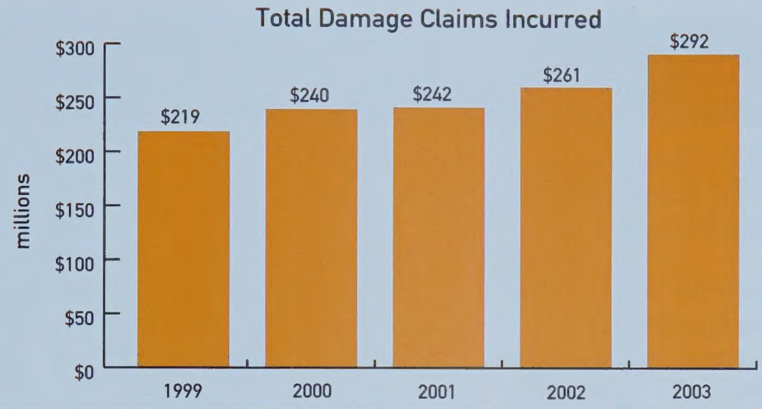
The Saskatchewan Auto Fund is an insurance program that operates on a break-even basis over time, which helps to keep rates low. An independent study of auto insurance rates by Runzheimer Canada shows that rates in provinces with public auto insurance systems - British Columbia, Manitoba and Saskatchewan - are the lowest in Canada (see poster below). In some cases, rates are dramatically lower.



One of the factors that sets Saskatchewan apart is that SGI treats drivers equally, surcharging after an incident, not prejudging based on age, gender or location.

Rising Claim Costs

While SGI continues to offer great rates, it does face a challenge. Claim costs continue to climb as rising repair costs outpace inflation. One of the reasons behind the increase is that new and advanced technology being added to vehicles every year means vehicles are more expensive to repair.



One factor that always plays a role in the number of claims, though its impact may vary from year to year, is weather. Weather in Saskatchewan ranges from snowstorms in the winter to hailstorms in the summer, and 2003 was no exception. Saskatchewan saw a prolonged winter in 2003 thanks to an April snowstorm. When summer did come, it was marked by several hailstorms around the province, which cost the Auto Fund more than $12 million.

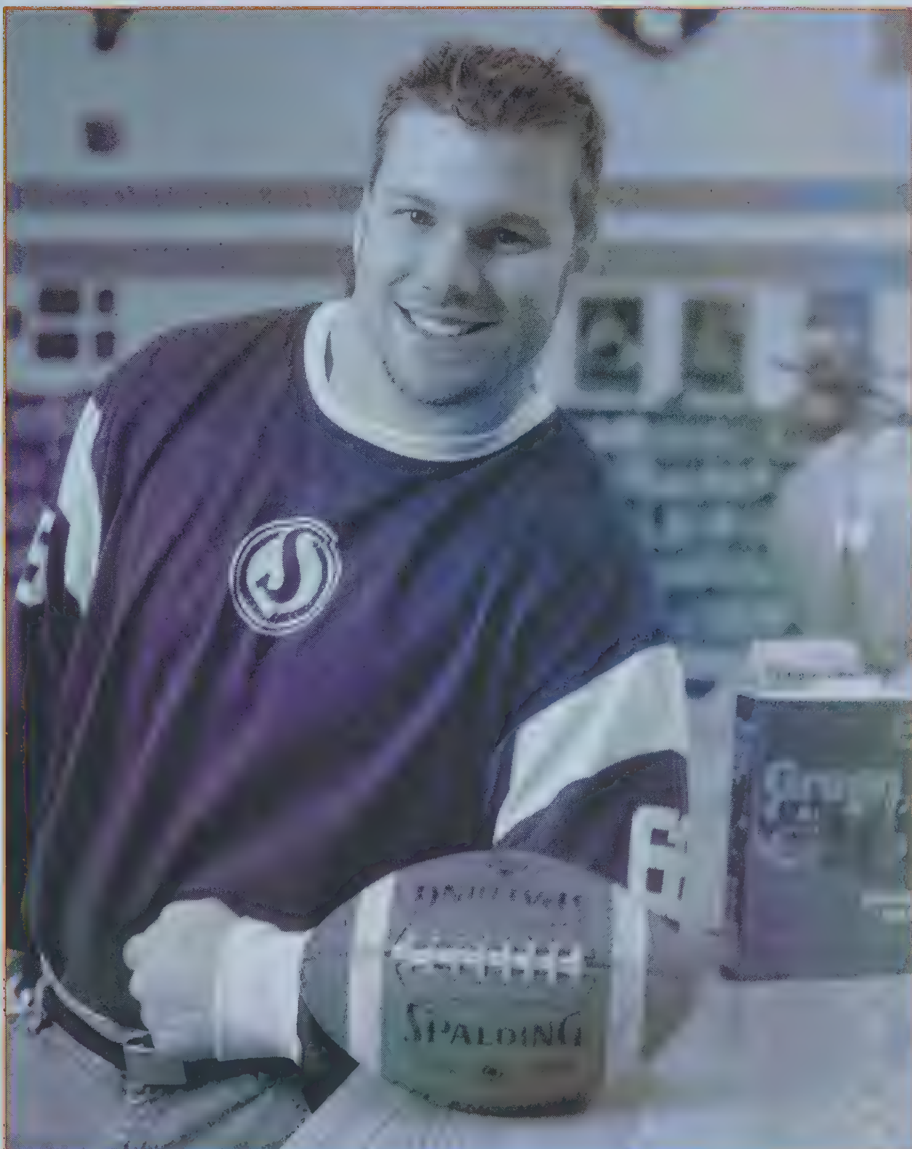
Saskatchewan Road Safety

As the main auto insurer in Saskatchewan, SGI continues to focus on promoting traffic safety in the province. The specific safety issues that SGI focuses on are determined by ongoing reviews of traffic statistics. Most programs fall into four key areas: drinking and driving, new drivers, seat belt use and high-risk drivers.

Traffic Safety Priority Area	Targets	Program Results to Date (2003)
Impaired Driving	40% reduction by 2010 in the proportion of fatal and injury accidents involving alcohol compared to average from 1996-2001	10.5% average reduction for 2002-2003
New Drivers	10% reduction in number of crashes involving new drivers compared to the average at the start of the probationary driver's program in 1996	3.7% annual average increase since the implementation of the probationary driver's program in 1996
Seat Belt Use	Maintain Saskatchewan ranking among top 3 provinces for seat belt use	3rd place in Canada – 91.7% (2002 urban survey) 5th place in Canada – 85.7% (2003 rural survey)
High-Risk Drivers	Reduce at-fault accidents by 60 accidents per 100 drivers per year	Reduction of 87 accidents per 100 drivers in 2003

A Part of the Community

SGI serves the people of Saskatchewan by supporting various programs and services that address insurance issues such as road safety, crime prevention and rehabilitation programs.



Play It Safe with Chris Szarka

Saskatchewan Roughriders star Chris Szarka is travelling to schools across the province as an ambassador of SGI to educate students about the dangers of drinking and driving.

Szarka's accomplishments as a professional athlete and his dedication to community make him a terrific role model for young people. Szarka was nominated in 2003 for the CFL's Tom Pate award as well as Outstanding Canadian, awards which honour outstanding contributions by a player to his team, sport and community.

Szarka's tour, which runs through April 2004, will take him to schools in every corner of the province.

The partnership between SGI and Chris Szarka is an ideal way to focus on one of SGI's key priorities – educating young people about the dangers of drinking and driving.

Designated Drivers go Flat-Out for Grey Cup 2003

With five days of flat-out fun and festivities planned during Grey Cup week in Regina, SGI sponsored the Designated Driver program to encourage everyone to always plan a safe ride home.

Drivers who weren't drinking registered at Designated Driver booths that were set up at various events and venues during Grey Cup week. Drivers received an identifiable wristband that got them free non-alcoholic drinks and entered into a draw to win various prizes.

The goal of the program was to promote safety and minimize alcohol-related incidents during Grey Cup week. The program was a success with Regina police reporting very few impaired driving charges. In fact, out of the thousands of party-goers taking part in the festivities that week, only 10 individuals were charged with impaired driving offences.

SGI was proud to support an exciting community event like Grey Cup 2003, while promoting the Designated Driver program.

A Part of the Community

Sherry Wall, SGI's Assistant Vice President of Injury Claims and Clint Ellingboe, Executive Director of CPA Saskatchewan

SGI Partners with CPA Saskatchewan

SGI's commitment to a three-year partnership with the Saskatchewan chapter of the Canadian Paraplegic Association provides $10,000 annually to each of the Regina and Saskatoon chapters.

As an insurance company, SGI is committed to crash prevention and rehabilitation efforts. The goal of the partnership is to provide funding for CPA Saskatchewan to expand existing programs that aid Saskatchewan residents with mobility challenges and spinal cord injuries, including those injured in an auto crash, through vocational and employment counselling and peer support.

Enforcement Overdrive expands to Prince Albert

The Prince Albert Police Service joined the Enforcement Overdrive program in 2003 in an effort to crack down on impaired drivers.

The Enforcement Overdrive program began in Regina in 2001 with Saskatoon joining in 2002. It allows police to hold additional roadside check stops for impaired driving, with SGI funding the increased staffing costs.

The Enforcement Overdrive program allowed police in Regina to operate 64 check stops in 2003, resulting in 21,330 vehicles being checked and 223 drinking and driving charges laid. In Saskatoon in 2003, police held 59 check stops, with 24,581 vehicles being checked and 198 drinking and driving charges laid.

After joining the program in May, Prince Albert police operated 20 check stops, with 4,266 vehicles checked and 30 drinking and driving charges laid.

Auto Theft Initiatives

SGI is committed to help combat the auto theft problem in Saskatchewan, which has a negative impact on SGI's bottom line.

SGI provides funding to a number of anti-theft initiatives, including assisting with an electronic monitoring program for young offenders. Electronic monitoring is a tool to assist with the management of the immediate risk to re-offend.

SGI's funding also allowed for the expansion of the Help Eliminate Auto Theft (HEAT) alternative measures program. HEAT provides youth with an individually tailored program to help them deal with factors causing criminal behaviour. Through the program, youth can access a variety of services, like substance abuse counselling and family support. The program is designed to encourage young people to be accountable for their actions. Through HEAT, young people are given the chance to meet their victims in person, which can help them understand how their actions have affected others. The program also provides the participating youth with employment opportunities so they can help cover the cost of damages incurred from their offence.

Another anti-auto theft initiative supported by SGI is Driving Down Auto Theft, a provincial program administered by RCMP and municipal police representatives that created new public service announcements for province-wide television and radio.

SGI also provided police with vehicles to use in the "bait car" initiative, which is designed to catch auto thieves in the act. SGI supplied vehicles for use both as actual bait cars as well as for surveillance.

Child Safety Seat Day

To kick off SGI's annual child restraint campaign, the first ever Child Safety Seat Day was held on May 10th. Child restraint clinics were held simultaneously in 20 communities across the province. Trained volunteers offered assistance in properly installing a child safety seat in a vehicle, ensuring the seat was the right one for the child's size, that it fit the vehicle and that the child was in the seat safely and securely.

The annual campaign was once again a success. Between May and September, there were 80 free, drive-through clinics held in 52 communities across the province. Almost 2,000 child restraints were checked.

2004 Outlook

There has not been a general rate increase in auto insurance premiums in Saskatchewan since Jan. 1, 2000, more than three years ago. A rate increase may be required in 2004, but it will not be anywhere near the increases motorists have faced in other provinces. Even with an increase in 2004, Saskatchewan vehicle owners will continue to pay among the lowest auto insurance premiums in the country.

While we have managed to retain a small positive balance in the Rate Stabilization Reserve in 2003, the growing cost of claims is a concern. To ensure the long-term financial stability of the Fund, premiums collected from motorists must cover the cost of claims on an annual basis. The company will continue to carefully monitor the Fund's financial position and will proceed with a recommendation to increase premiums in 2004 only if necessary.

Balanced Scorecard

The Saskatchewan Auto Fund is a compulsory provincial vehicle insurance program administered by SGI. The Auto Fund provides vehicle registrations, driver licences and related services to 850,000 vehicles and 635,000 drivers.

The Fund is operated on a break-even basis over time. SGI acts as the administrator of the Fund on behalf of the Province of Saskatchewan.

SGI employs more than 1,500 people, operates 21 claims centres and five salvage centres in 13 communities across the province. The Fund has developed a set of short-term and long-term objectives and targets that make up our Balanced Scorecard.

The Auto Fund exceeded its financial target, largely due to a reduction in the estimate of unpaid claims from prior years. In the public policy category, SGI met or exceeded its targets for reducing injuries and fatalities in motor vehicle crashes. SGI continued to exceed the target for women in under-represented roles, aboriginal and visible minority areas.

SGI was unable to meet its targets in the learning and innovation category as a program was being customized for the Corporation which delayed the expected implementation date. The Corporation still intends to meet its target of training all frontline staff.

The Fund's performance is measured against the following key objectives:

	Strategic Objective	Strategic Measurement	2003 Target	2003 Actual
Financial	Maintain an adequate Rate Stabilization Reserve (RSR)	RSR balance equal to 17% of claims incurred	$23M deficit	$14.4M surplus
Customer Service	Deliver lowest average rates in Canada	SGI cross-Canada comparison	1st or 2nd lowest average private vehicle rates in Canada	2nd lowest Manitoba lowest
	Claims customer satisfaction	Claims customer service survey	91%	90%
Learning and Innovation	Improve business effectiveness through corporate training	Front-line staff receiving specialized experience training	25% of staff trained	12% of staff have received training
Public Policy	Economic diversification and growth	Per cent of dollars spent in Saskatchewan	90%	80%
	Reduce fatalities and serious injuries due to motor vehicle crashes	Reduction in the 1996-2001 average number of fatalities of 158	10% reduction from the 1996-2001 average	10% reduction (average of 2002-2003 fatalities compared to 1996-2001 average)
		Reduction in the 1996-2001 average number of serious injuries of 667	10% reduction from the 1996-2001 average	13% reduction (average of 2002-2003 serious injuries compared to 1996-2001 average)
	Representative workforce	Women in under-represented categories	47%	48.5%
		Aboriginal	7.9%	8.1%
		People with disabilities	8%	7.3%
		Visible minorities	3%	3.1%

Management Discussion and Analysis

Introduction

This report focuses on the financial position and operating results of the Saskatchewan Auto Fund (the Fund). The information in this section should be read in conjunction with the Fund's financial statements and accompanying notes.

The Saskatchewan Auto Fund is the compulsory automobile insurance program administered by SGI on behalf of the people of Saskatchewan. The Fund provides vehicle registrations, driver licences and related services to all Saskatchewan motorists. The Fund operates on a break-even basis over time, and neither receives money from, nor pays annual dividends to, the provincial government.

The Fund provides coverage for damage to or loss of an insured's vehicle, subject to a deductible, as well as up to $200,000 liability for property damage and/or injuries caused to another person. The Fund also provides all Saskatchewan residents with personal auto injury coverage and as of 2003 they can choose between a no fault or tort product.

2003 Overview

The Auto Fund recorded a surplus of $11.5 million in 2003, increasing the balance in the Rate Stabilization Reserve (RSR) to $14.4 million. The prior year surplus was just under $1 million, with the improvement in 2003 a result of higher investment earnings. The financial results in 2003 were better than expected due to a reduction in the estimate of unpaid claims from prior years (redundancy) of $42 million.

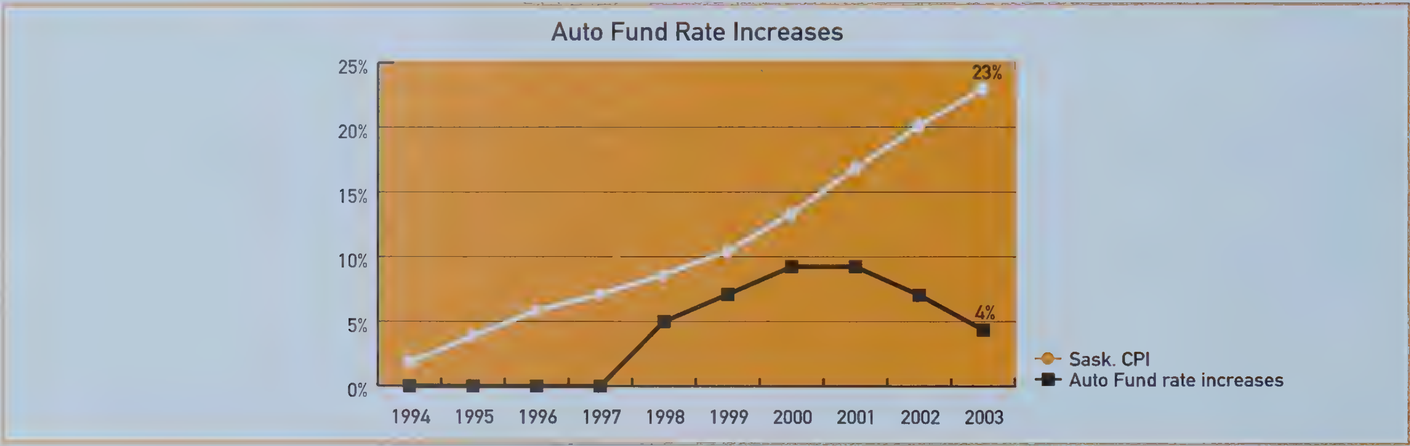
In 2003, automobile insurance rates in Canada received widespread attention as a large percentage of vehicle owners in provinces with private automobile insurance systems received significant rate increases. This was not the case in Saskatchewan. The Auto Fund has not implemented a general rate increase since 2000.

Actual versus Last Year

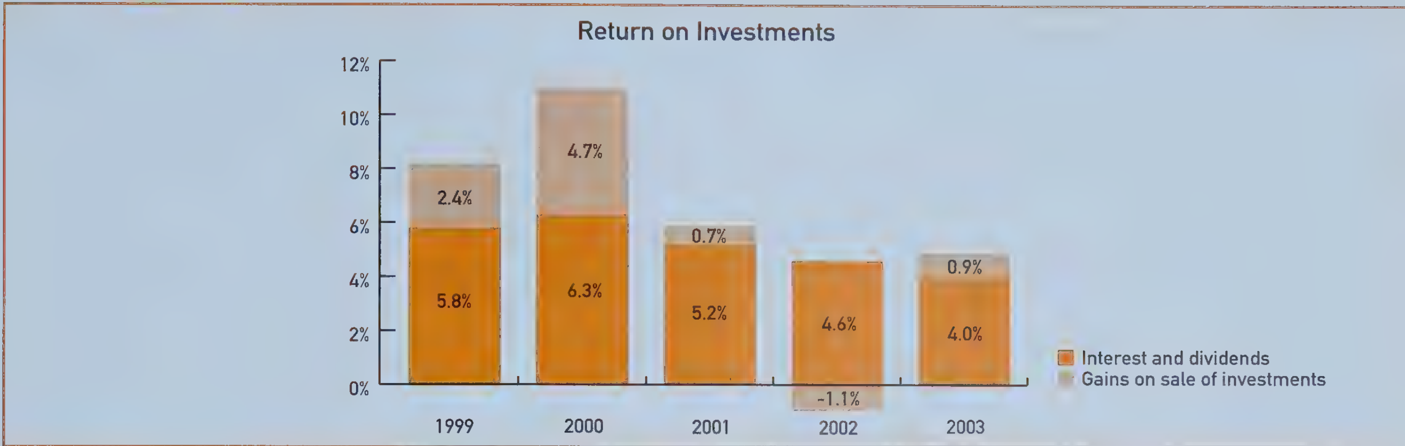
Revenues

Net premiums written in 2003 totalled $491.6 million, a 1.1% or $5.2 million increase over last year's total of $486.4 million. 2003 marked the third consecutive year that the Auto Fund did not implement a general rate increase. The Auto Fund decreased rates for safe drivers with the implementation of the Safe Driver Recognition program in July 2002. Safe Driver Recognition places all drivers on a safety rating scale based on driving history. Initially the maximum discount offered was 7%, and in January 2003, this maximum was increased to 8%. The cost of these discounts in 2003 was just under $23.0 million, which is equivalent to a rate decrease of 4.5%.

A major objective for the Auto Fund is maintaining among the lowest automobile insurance rates in Canada. Even with the large deficit of $127 million that had accumulated by 1997, the Auto Fund has been able to keep rate increases reasonable with general increases in only three of the last 10 years. These rate increases, combined with the reductions in rates from Safe Driver Recognition, mean the compound effect on automobile insurance rates in Saskatchewan in the past 10 years is just over 4% compared to Saskatchewan CPI growth of 23%.



Investment revenue of $39.1 million was an improvement over last year's revenue of $26.1 million. Increased earnings were a result of higher gains on the sale of investments, combined with lower writedowns required on investments. These improvements were somewhat offset by lower bond yields. The rate of return on the portfolio in 2003 was 4.9%, compared to only 3.5% in 2002, one of the lowest returns ever realized in the Auto Fund. Bond returns continue to decline as higher yielding bonds purchased years ago are maturing or being sold and reinvested at today's lower interest rate environment.



Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term payment option programs, as well as net income from the Salvage division.

Vehicle owners who choose AutoPay or Short-Term payment options are charged a fee to cover administration costs and lost investment income. These fees generated $13.1 million in revenue in 2003, compared to $12.6 million in 2002.

The Auto Fund operates a Salvage division with branches in five communities in Saskatchewan. SGI Salvage reduces the Auto Fund's claim costs by selling recycled automobile parts and whole vehicles from total loss claims. Net income in 2003 was $5.7 million, compared to $4.5 million in 2002.

Claims

In 2003 claims incurred totalled $451.8 million, a 3.8% increase over 2002. The increase is a result of growth in damage claim costs which grew by 12%, partially offset by an 8% decline in the cost of bodily injury claims. Damage claims have continued to grow as newer vehicle models designed with new technology such as air bags and antilock brakes cost more to repair.

Injury claim costs declined in 2003 to $160 million, an 8% reduction over 2002. The decline is primarily due to a higher redundancy on prior year claims. At year end with the assistance of an external actuary, the Auto Fund makes provisions for future development on claims that have been made and an estimate for those that have occurred but have not yet been reported. For instance, someone seriously injured in an automobile accident may eventually be able to return to their job, may be retrained for a new occupation or may never be able to return to work. On a global basis using many factors including historical data, the actuary attempts to estimate how much these types of unpaid claims will eventually cost.

In 2003, as a result of changes in these estimates, the actuary determined that an excess of $42 million had been set aside for reserves in previous years (in insurance industry terminology, a "redundancy") and is partially offset by unwinding of the discounted claims reserves leaving a total prior year redundancy of $27 million. This compares to a prior year redundancy of $33 million from changes in estimates and $20 million after considering the unwinding of the discount.

The Auto Fund operates on a break-even basis over time and does not price its insurance products to earn a profit. As well, the Auto Fund provides basic automobile insurance to all Saskatchewan residents and therefore, does not incur marketing and underwriting costs to the same extent that private insurers do. These factors allow the Auto Fund to return more of each premium dollar to customers through claim payments. For example, on average over the last five years, the Auto Fund has returned 93 cents of each premium dollar to customers, compared to the insurance industry average of only 81 cents.

Expenses

The Auto Fund's expenses excluding claim costs totalled $78.0 million in 2003, a 1.2% increase over 2002's total of $77.1 million.

Fees paid to independent licence issuers to deliver the Auto Fund's products rose to $16.9 million, an increase of $1.6 million. The increased costs are a result of a higher volume of transactions and new program initiatives, such as Safe Driver Recognition and choice in auto injury insurance.

Premium taxes, which are 5% of premiums, increased by $685,000 in 2003 commensurate with the growth in premiums.

Administrative expenses declined in 2003 by 2.6% to $27.7 million. In 2002 one-time costs were incurred to educate the public on the choice in auto injury insurance. Total administrative expenses were 5.7% of premiums in 2003, about half of the insurance industry average.

Traffic safety program spending decreased by $602,000 to $9.1 million, representing 1.9% of premiums compared to 2.1% in 2002. Over the last several years, the Auto Fund has gradually been moving towards a target of spending 2% of each premium dollar on traffic safety programs. Our investment in these programs is monitored against targets. If the initiatives are not having the desired impact, changes are made to ensure these investments are working to reduce the frequency and severity of traffic accidents.

Actual versus Budget

The Auto Fund prepares an annual forecast each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year.

The Auto Fund's 2003 budget developed in the fall of 2002 anticipated a loss of $22 million in 2003, while the Auto Fund actually recorded a surplus for the year of $11.5 million, a difference of over $33 million. Most revenue and expense categories were close to forecast with the exception of the Auto Fund's most volatile categories; claims incurred and investment earnings.

Claim costs were $47.4 million less than expected due to a change in the actuary's estimate of the cost of prior year claims of just under $42 million. (The budget does not include an estimate for a change in the actuary's estimate and therefore this redundancy results in a variance to budget.)

The investment portfolio provided earnings of $39.1 million, $8.2 million less than expected earnings of $47.3 million. The budget anticipated a 6.0% return on the portfolio compared to the actual return of 4.9%. This difference is from both lower interest income and gains on the sale of investments than budgeted.

Liquidity

The Auto Fund purchases reinsurance to protect against major catastrophes adversely affecting the RSR. With the Auto Fund now in a surplus position, combined with the size and conservative nature of the investment portfolio, the Corporation is confident that it can meet all liabilities as they become due.

Risk Management

Corporate risk management is a dynamic process. The Corporation has identified potential risks the Auto Fund faces. These risks are evaluated as to consequence, severity and likelihood and then analyzed to determine what mitigating steps were taken to reduce the inherent risk. Mitigating strategies have reduced to acceptable levels the impact of the high risks or the likelihood of the risk occurring. This in-depth risk assessment is conducted on a semi-annual basis and presented to the Audit Committee of the Board of Directors.

The following issues and risks, among others, should be considered when evaluating the Auto Fund:

Privacy Management Program

The implementation of privacy legislation has led to the development of a privacy management framework within the Auto Fund. The framework calls for a staged action plan to meet legislative requirements imposed by the *Freedom of Information and Protection of Privacy Act* and other privacy legislation. It will ensure that policies and practices are in place to protect privacy and personal information.

Business Interruption

The Auto Fund has developed a business continuity plan to ensure that essential services for customers are maintained. The plan includes an alternate computing services site across the street from the head office building that houses servers for the Auto Fund's major applications. It can be instantly activated and accommodates short-term disruptions. The contract for the alternate site expires in 2005 and an option for a new site is under review.

Catastrophe Exposure

The Auto Fund is exposed to losses arising from catastrophic events. With the Auto Fund insuring all vehicles in the province, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk it purchases catastrophe reinsurance protection, which reduces the potential impact from major losses as a result of catastrophic events.

Provision for Unpaid Claims

The Auto Fund maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported. These provisions are estimates and the ultimate payment on these claims will differ somewhat from the estimate. The Auto Fund faces the risk that the ultimate payment on these claims will be materially different than the established provision.

Investment Returns

Investment earnings are used to reduce rates for vehicle owners in Saskatchewan. In 2003, investment earnings represented 7% of total revenues for the Auto Fund, compared to only 5% in 2002. These earnings can fluctuate significantly from year to year based on returns from capital markets over which the Corporation has little control. To mitigate these fluctuations, the Corporation maintains a well-diversified investment portfolio and utilizes the services of two investment managers.

Each of the investment managers follows the guidelines established in the Investment Policy and Objectives, which provides the manager with a guideline for the quality, quantity and rate of return standards for the portfolio. The Investment Policy and Objectives for each fund manager are reviewed annually by management and approved by the Board of Directors. Fund managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Investment Committee of the Board of Directors. As well, the Corporation utilizes the services of an investment consultant to independently review and report on the performance of the investment managers.

Outlook

While the insurance industry as a whole and auto insurance in particular has been volatile in the last two years, this has not been the case for the Saskatchewan Auto Fund. The industry recorded its two worst years ever in 2001 and 2002. There are indications that the industry is recovering, but the market for auto insurance remains unstable. Regulators in other provinces are considering or are in the process of making changes to coverages in the face of double digit rate increases for consumers. On average, auto insurance premiums in Canada increased by 22.1% in 2003, according to Statistics Canada.

The Auto Fund has been remarkably stable in the face of volatility in other parts of the country's auto insurance market. There has been no general rate increase since 2000 and the Auto Fund has recorded small surpluses in the RSR since 2001. Injury costs are stable, unlike in other parts of the country. However, damage claim costs continue to rise at a rate higher than that of inflation.

The Auto Fund would not have a surplus in 2003 had it not been for the prior year redundancy in claims. On a loss year basis, the revenue for 2003 was inadeqate to cover costs. The financial situation is being carefully monitored, and a rate increase proposal may go forward in 2004 if required to ensure continued financial stability for the company.

Under any foreseeable circumstance, Saskatchewan vehicle owners will continue to pay among the lowest auto insurance premiums in Canada in 2004.

Authority (Saskatchewan Auto Fund):

The Saskatchewan Auto Fund is a compulsory provincial vehicle insurance program administered by SGI pursuant to the powers granted to SGI under the *Saskatchewan Government Insurance Act*, 1980, and the *Automobile Accident Insurance Act*. The SGI Board of Directors oversees the administration of the Auto Fund and holds management accountable for the Auto Fund's performance. Through the Chair, the Board of Directors is accountable to the Minister responsible for Saskatchewan Government Insurance, who functions as a link between the Corporation and Crown Investments Corporation and Cabinet, as well as the provincial legislature.

Committees:

The Board of Directors has established the following committees to assist in the discharging of its responsibilities:

- Audit and Finance Committee
- Investment and Legislative Review Committee
- Governance Committee
- Human Resources Committee

TSE Governance Guidelines

1) The board should explicitly assume responsibility for the stewardship of the corporation, specifically for:

a) adoption of a strategic planning process;

SGI has a comprehensive annual strategic planning process. Senior management of the Corporation undergo a process of long-term planning on an annual basis as a preliminary step in the preparation for the Board and Executive planning conference. The Board participates in the development and approval of the final version of the strategic plan which reviews the long-term risks the Corporation may face, as well as opportunities the Corporation should investigate or pursue.

b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;

The Board has delegated to the Audit and Finance Committee the responsibility for review and assessment of the nature and extent of the risks facing the Company. The Committee determines the likelihood of the risks materializing. Through this review, the Committee addresses the risks acceptable to the Corporation and, for those that are not acceptable, ensures systems are in place to manage them. On an annual basis, the Committee reports to the Board the results of the review with any recommendations as appropriate.

c) succession planning, including appointing, training and monitoring senior management;

The Board has delegated to the Human Resources Committee the responsibility to review the Corporation's succession planning strategy with the President and CEO on an annual basis. The Committee recommends to the Board a senior management succession plan.

d) a communication policy for the corporation; and

The Corporation has a formal, written communication policy, which has been approved by the Board of Directors. The policy defines the communication practices for the Corporation, confirms that these practices will be guided by the values defined by the Corporation and commits the Corporation to providing timely communication to staff, shareholders and customers.

e) the integrity of the corporation's internal control and management information systems.

The Board has delegated to the Audit and Finance Committee the responsibility to review annually the Corporation's internal control systems and report to the Board the results of the review.

2) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. (i.e. one who is independent of management and is free from any interest in any business or other relationship which

could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interest of the corporation, other than interests and relationships arising from shareholding):

The SGI Board of Directors is constituted with a majority of unrelated directors. Larry Fogg, President and Chief Executive Officer, and Kendra Chesney, SGI Information Technology Analyst, are the only related Board members.

Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):

SGI is a statutory Crown corporation and, as such, it does not have any share capital.

3) The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director:

Nancy E. Hopkins, Chair: Unrelated
(Appointed Chair of the Board effective April 1)
Lawyer, McDougall Gauley

J. Walter Bardua, Vice Chair: Unrelated
(Appointed Vice Chair effective December 19)
Retired Insurance Professional

Robert Fenwick: Unrelated
Retired Insurance Professional

Joan F.D. Baldwin: Unrelated
Doctor, Gardiner Park Clinic

Jim Mills: Unrelated
Mayor, Elrose, Sask.

Larry Fogg: Related
President and CEO, SGI

Joan R. Bellegarde: Unrelated
Executive Director, File Hills Qu'Appelle Tribal Council

W.J.A. (Bill) Heidt: Unrelated
Retired Insurance Professional

Kendra Chesney: Related
Information Technology Analyst, SGI

Don Cody, Chair: Unrelated
(resigned from the Board effective March 28)
Mayor, City of Prince Albert, Sask.

Delores Burkhart, Vice Chair: Unrelated
(resigned from the Board effective October 22)
Consultant

4) The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors, i.e. non-management, the majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

The Committee is comprised of four directors. They are all outside directors; one is related.

5) Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors:

The Governance Committee is charged with the responsibility of recommending to the Board of Directors a process for evaluating the performance of the Board and its members. The Committee is

responsible for implementing the process and undertakes the evaluation on an annual basis.

6) Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.

The Governance Committee is responsible for the implementation of an orientation program for new Board members and an ongoing education program for existing Board members. As well, Crown Investments Corporation (CIC) provides, on an annual basis, a comprehensive training program for all Crown Corporation directors.

7) Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

8) The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.

Crown Investments Corporation is mandated by legislation to set the remuneration for the SGI Board of Directors.

9) a) A committee should be generally composed of non-management directors:

The Board Committees are comprised entirely of outside directors.

b) The majority of committee members should be unrelated:

All directors appointed to the Committees are unrelated, with the exception of one member appointed to the Governance Committee.

10) Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues. This committee would, amongst other things, be responsible for the corporation's response to these governance guidelines:

The Board has formed a Governance Committee, which is responsible for monitoring the governance of the Board and Committees of the Board. The Committee recommends governance issues to be discussed at the Board level.

11) a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO involving the definition of the limits to management's responsibilities:

The Board has approved Terms of Reference which describe its responsibilities. As well, the Governance Committee reviews, as required and at least annually, the duties and responsibilities of the Board and all Board committees and recommends to the Board any amendments as deemed necessary or advisable, including identification of committees to which management should report on specific issues.

b) The board should approve or develop the corporation's objectives which the CEO is responsible for meeting:

The CEO has a job description, which is reviewed by the Human Resources Committee. The CEO is responsible for meeting the targets outlined in the Corporate Balanced Scorecard against which he is evaluated on an annual basis. The CEO evaluation is undertaken by the Human Resources Committee, and reported to and approved by the Board.

12) Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management:

The Chair of the Board is an outside, unrelated director.

The Board of Directors holds an in camera session at the beginning of each meeting, during which time management is excused.

13) The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control:

The Audit and Finance Committee is comprised entirely of outside, unrelated directors. The Committee includes a chartered accountant, and all members of the Committee are financially literate.

The Committee has a Board-approved mandate, which is reviewed regularly by both the Audit Committee itself and the Governance Committee.

The Audit and Finance Committee meets at least annually with both the external and internal auditors, during which time all management is excused.

The Committee's responsibilities include reviewing: the results of the external auditors' review of the Corporation's financial records; the plans and accomplishments of the internal auditor; and the reports of the internal and external auditors with respect to the Corporation's internal control systems. The Committee reports to the Board any matters which may remain unresolved.

14) The board of directors should implement a system, which enables an individual director to engage an outside adviser at the expense of the company in appropriate circumstances. The engagement of the outside adviser should be subject to the approval of an appropriate committee of the board.

As part of their constitution, the Board and its Committees have the authority to obtain the advice of outside experts in instances where they believe it is required, in order to properly discharge their obligations to the Corporation.

Responsibility for the Financial Statements

The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Fund and the nature of the insurance policies. The actuary also makes use of management information provided by the Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Fund. An audit committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Larry Fogg
President

John Dobie
Vice President
Finance

February 13, 2004

Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities of the Saskatchewan Auto Fund for its statement of financial position at December 31, 2003 and their change in the statement of operations and Rate Stabilization Reserve for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Richard Gauthier
Fellow, Canadian Institute of Actuaries

February 13, 2004

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Saskatchewan Auto Fund as at December 31, 2003 and the statements of operations and Rate Stabilization Reserve and cash flows for the year then ended. These financial statements are the responsibility of the management of Saskatchewan Government Insurance as administrators of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 13, 2004

Statement of Financial Position

December 31	2003	2002
	(thousands of $)	
Assets		
Cash and treasury bills (note 3)	$ 80,682	$ 76,545
Accounts receivable (note 4)	107,314	102,072
Deferred policy acquisition costs	15,285	14,083
Prepaid expenses and inventories	5,402	4,106
Investments (note 5)	736,773	677,879
Net investment in capital leases (note 6)	5,128	5,689
Property, plant and equipment (note 7)	39,924	42,305
	$ 990,508	$ 922,679
Liabilities		
Accounts payable and accrued charges	$ 13,340	$ 12,426
Premium taxes payable	24,683	24,409
Provision for unpaid claims (note 8)	711,510	665,522
Unearned premiums	226,623	217,498
	976,156	919,855
Rate Stabilization Reserve	**14,352**	**2,824**
	$ 990,508	$ 922,679

Commitments (note 14)

(see accompanying notes)

Statement of Operations and Rate Stabilization Reserve

year ended December 31	2003	2002
	(thousands of $)	
Gross premiums written	$ 493,657	$ 488,178
Net premiums written	$ 491,630	$ 486,443
Net premiums earned	**$ 483,386**	$ 470,022
Claims incurred	451,762	435,312
Issuer fees	16,943	15,376
Premium taxes	24,271	23,586
Administrative expenses	27,701	28,429
Traffic safety programs	9,066	9,668
Total claims and expenses	**529,743**	512,371
Underwriting loss	**(46,357)**	(42,349)
Investment earnings (note 9)	39,129	26,082
Other income (note 10)	18,756	17,122
Increase to Rate Stabilization Reserve	**11,528**	855
Rate Stabilization Reserve, beginning of year	2,824	1,969
Rate Stabilization Reserve, end of year	**$ 14,352**	$ 2,824

(see accompanying notes)

Statement of Cash Flows

year ended December 31	2003	2002
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net increase to Rate Stabilization Reserve	$ 11,528	$ 855
Non-cash items:		
Amortization	6,647	4,911
Realized gain on disposal of investments and capital assets	(9,540)	(1,222)
Loss (income) from equity investment	(60)	1,007
Investment write downs	2,701	9,780
Change in non-cash operating items (note 11)	48,561	30,094
	59,837	45,425
Investing activities		
Purchases of investments	(1,224,171)	(924,381)
Proceeds on sale of investments	1,185,436	875,756
Repayment of capital leases	561	509
Purchases of capital assets	(1,050)	(4,882)
Proceeds on disposal of capital assets	65	96
	(39,159)	(52,902)
Increase (decrease) in cash and cash equivalents	**20,678**	(7,477)
Cash and cash equivalents:		
Balance, beginning of year	21,361	28,838
Balance, end of year	$ **42,039**	$ 21,361
Plus treasury bills greater than 91 days to maturity from acquisition date	**38,643**	55,184
Cash and treasury bills per statement of financial position	$ **80,682**	$ 76,545

(see accompanying notes)

December 31, 2003

1. STATUS OF THE FUND

The Saskatchewan Auto Fund (the Fund) was established effective Jan. 1, 1984 by an amendment to the *Automobile Accident Insurance Act*.

The Rate Stabilization Reserve is held on behalf of Saskatchewan's motoring public and is not used for the payment of any general dividends.

Effective Jan. 1, 2003 the Fund introduced choice in auto injury insurance coverage, where Saskatchewan residents may choose between No Fault Coverage and Tort Coverage.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fund are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs

Premium taxes and issuer fees are deferred and then charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, shares, pooled funds and real estate are valued at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of trade.

The Fund owns 4% (2002 – 7%) interest in SGI CANADA Insurance Services Ltd. (SCISL), a company formed to sell insurance products in provinces other than Saskatchewan. The investment in SCISL is recorded on the equity basis, whereby the carrying value of the investment is adjusted by the Fund's share of SCISL's earnings or losses and reduced by cash received.

The Fund has a one-third interest in a real estate joint venture, which is accounted for using proportionate consolidation. The resulting income producing property is amortized over its estimated useful life of 50 years on a sinking fund basis. The other interests in this joint venture are SaskPen and a private sector investor. SaskPen is a real estate corporation owned by Province of Saskatchewan employee pension plans.

Investments are written down when there is a decline in value that is other than temporary.

Capital leases

Investment earnings related to direct financing leases are recognized in a manner that produces a constant rate of return on the investment in each lease. The net investment in leases is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Buildings and improvements	2 ½ - 5%
Computer hardware, system costs and other equipment	20 - 50%

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

3. CASH AND TREASURY BILLS

Cash and treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate of 2.8% (2002 – 2.8%) and an average remaining term to maturity of 98 days (2002 - 53 days). The Fund's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the short-term portfolio.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2003	2002
Financed premiums receivable	$ 83,911	$ 71,906
Motor vehicles driver receivable	4,763	9,800
Due from Saskatchewan Finance	2,112	5,172
Accrued investment income	6,632	4,296
Licence issuers receivable	2,864	4,037
Amount recoverable on paid claims	4,004	3,732
Due from associated companies	2,538	2,417
Other	490	712
Total accounts receivable	$ 107,314	$ 102,072

5. INVESTMENTS

The carrying value and fair value of the Fund's investments are as follows:

	(thousands of $)			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$ 492,625	$ 504,141	$ 299,280	$ 311,666
Pooled bond fund	-	-	143,012	147,395
Common shares	145,001	188,392	142,996	156,208
Pooled equity fund	42,461	42,722	36,869	33,149
Mortgages	46,815	48,996	45,385	47,753
Income producing property	9,307	9,408	9,833	9,833
	736,209	793,659	677,375	706,004
Investment in SGI CANADA Insurance Services Ltd.	564	564	504	504
Total investments	$ 736,773	$ 794,223	$ 677,879	$ 706,508

The income producing property consists of land and buildings with costs of $1,451,000 (2002 - $1,451,000) and $8,575,000 (2002 - $9,000,000) respectively and accumulated amortization of $719,000 (2002 - $618,000).

Details of significant terms and conditions, exposures to interest rate and credit risks on investments are as follows:

(i) Bonds and debentures:

The Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the investment assets for corporate bonds and debentures and 20% for bonds and debentures issued by any one province. Also, a minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	(thousands of $)			
	2003		2002	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$ 205,197	4.6%	$ 88,962	4.7%
After five	65,920	5.7%	73,279	5.7%
Canadian provincial & municipal:				
After one through five	41,787	6.0%	12,433	5.9%
After five	29,997	5.8%	36,298	6.0%
Canadian corporate:				
One or less	2,230	6.3%	-	-
After one through five	112,814	5.6%	49,616	6.2%
After five	34,680	6.9%	38,692	7.0%
Total bonds & debentures	$ 492,625		$ 299,280	

(ii) Pooled bond fund:

The Fund owns units in a Canadian pooled bond fund that has no fixed interest rate. Its returns are based on the success of the fund manager and future interest rates. During 2003 the Fund sold all of its pooled bond fund holdings in the normal course of business.

(iii) Pooled equity fund:

The Fund owns units in an international pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

(iv) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 1.8% (2002 - 1.7%).

Common shares include $42,098,000 (2002 - $33,877,000) denoted in United States dollars.

The Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Fund's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(v) Mortgages:

The mortgage portfolio consists entirely of Canadian commercial mortgages with an average effective interest rate of 7.1% (2002 - 7.6%) with an average maturity of 4.6 years (2002 – 4.5 years). Principal and interest is receivable on a monthly basis.

6. NET INVESTMENT IN CAPITAL LEASES

One of the Fund's capital leases is a 63% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Sask.
The related party total minimum lease payments receivable is $7,210,000 (2002 - $8,205,000), and unearned income is $2,100,000 (2002 - $2,637,000).

Each lease transfers substantially all of the benefits and risks incident with the ownership of the property to the lessee. The Fund's total net investment in capital leases includes the following:

	(thousands of $)	
	2003	2002
Total minimum lease payments receivable ($1,106,000 per year)	$ 7,228	$ 8,334
Unearned income	(2,100)	(2,645)
Net investment in capital lease	$ 5,128	$ 5,689

The fair value of the net investment in capital leases is $6,358,000 (2002 - $7,068,000).

7. PROPERTY, PLANT AND EQUIPMENT

The components of the Fund's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	(thousands of $)			
	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 7,112	$ -	$ 7,112	$ 7,119
Buildings and improvements	44,519	14,607	29,912	31,115
Computer hardware, system costs and other equipment	27,517	24,617	2,900	4,071
Total	$ 79,148	$ 39,224	$ 39,924	$ 42,305

Amortization for the year is $3,373,000 (2002 - $3,764,000).

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Fund's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as damage claims tend to be more reasonably predictable than long-tail claims such as long-term disability and liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Auto Fund settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Fund provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the statement of financial position date total $24,562,000 (2002 - $24,629,000).

Included in the provision for unpaid claims are discounted amounts for injury accident benefits in the amount of $347,352,000 (2002 - $312,842,000). These claims have been discounted using a rate of 2.5% to 6% to take into account the time value of money and also include a provision for adverse development.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $)	
	2003	2002
Net unpaid claims - beginning of year	$ 665,522	$ 627,479
Payments made during the year relating to prior year claims	(129,438)	(136,617)
Excess relating to prior year estimated unpaid claims	(27,024)	(19,990)
Net unpaid claims for claims of prior years	509,060	470,872
Provision for claims occurring in the current year	202,450	194,650
Net unpaid claims - end of year	$ 711,510	$ 665,522

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $)	
	2003	2002
Injury accident benefits	$ 529,529	$ 488,928
Injury liability	113,703	121,263
Damage	68,278	55,331
Total	$ 711,510	$ 665,522

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2003	2002
Interest and dividends	$ 30,635	$ 33,114
Realized gains on sale of investments	9,533	1,216
Income from income producing property, net of operating costs of $803,000 (2002 - $775,000)	1,118	935
Income from capital leases	544	597
Investment write downs	(2,701)	(9,780)
Total investment earnings	$ 39,129	$ 26,082

Cash inflows from the income producing property are $1,283,000 (2002 - $750,000).

Investment write downs by category are as follows:

	(thousands of $)	
	2003	2002
United States common shares	$ (918)	$ (2,206)
Canadian common shares	(729)	(3,161)
Canadian bonds	(602)	-
Mortgages and income producing property	(452)	(693)
Non-North American pooled equity fund	-	(3,720)
Total investment write downs	$ (2,701)	$ (9,780)

10. OTHER INCOME

The Fund operates a salvage division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. In 2003, total salvage sales were $25,715,000 (2002 - $24,410,000); gross earnings on sales were $9,237,000 (2002 - $8,094,000); and net earnings were $5,663,000 (2002 - $4,535,000). The net earnings of the salvage division are included in other income.

The Fund offers a Short-Term Vehicle Registration and Insurance plan which allows the motoring public to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows the motoring public to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance. Included in other income is $13,093,000 (2002 - $12,587,000) for fees charged to users of these plans.

11. CASH FLOWS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2003	2002
Change in non-cash operating items:		
Accounts receivable	$ (5,242)	$ (18,314)
Deferred policy acquisition costs	(1,202)	(1,153)
Prepaid expenses and inventories	(1,296)	(341)
Accounts payable and accrued charges	914	(5,833)
Premium taxes payable	274	1,138
Provision for unpaid claims	45,988	38,043
Unearned premiums	9,125	16,554
	$ 48,561	$ 30,094

12. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year end are as follows:

	(thousands of $)	
Category	**2003**	2002
Accounts receivable	$ 2,233	$ 5,210
Deferred policy acquisition costs	11,013	10,601
Investments	9,112	4,276
Accounts payable and accrued charges	176	774
Premium taxes payable	24,683	24,409
Provision for unpaid claims	447	501
Unearned premiums	4,656	2,721
Premiums written	10,463	6,286
Premiums earned	10,288	6,074
Investment earnings	455	(710)
Claims incurred	22,348	21,016
Premium taxes	24,271	23,586
Administrative expenses	1,950	2,144
Traffic safety programs	2,310	1,746

Saskatchewan Government Insurance (SGI) acts as administrator of the Fund. Administrative and claim adjustment expenses incurred by SGI are allocated to the Fund and SGI directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Fund were $75,678,000 (2002 - $75,983,000) and accounts receivable are $2,538,000 (2002 - $2,417,000).

Other related party transactions are described separately in the notes.

13. FAIR VALUES

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) cash and treasury bills
(b) accounts receivable
(c) accounts payable and accrued charges
(d) premium taxes payable

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices:

(a) bonds and debentures
(b) common shares

(iii) For the following financial instruments the fair values are considered to approximate quoted market values of the underlying investments, which is normally the current bid price:

(a) pooled bond fund
(b) pooled equity fund

(iv) Mortgages

The fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(iv) Net investment in capital lease

The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

(v) Investment in SGI CANADA Insurance Services Ltd.

The fair value of the investment in SGI CANADA Insurance Services Ltd. is considered to approximate book value.

(vi) Provision for unpaid claims

The fair value of the provision for unpaid claims has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

14. COMMITMENTS

The Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile accidents. The funding to be provided over the next five years is anticipated to be $53.2 million.

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